



November 30, 2001

Honorable Mayor and City Council
City of Albuquerque, New Mexico

We are pleased to submit the Comprehensive Annual Financial Report of the City of Albuquerque, New Mexico, (City), for the fiscal year ended June 30, 2001. The report was prepared by the Finance and Administrative Services Department. The responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. As indicated by the opinion of our independent auditors, the report fairly presents the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. The report has been set forth in a manner that will give the reader a broad understanding of the City's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the City's financial activities.

The City's Comprehensive Annual Financial Report consists of five major sections: (1) the introductory section, of which this narrative is a part, (2) the financial section, which contains the financial statements of all funds of the City, (3) the statistical information section, which includes general information about the City and comparative data for prior fiscal years, (4) single audit information, which includes federal grant information as required by the Single Audit Act, and (5) State Compliance and Operational Findings. Included after the Schedule of Expenditures of Federal Awards are the related findings and recommendations by the City's independent auditors.

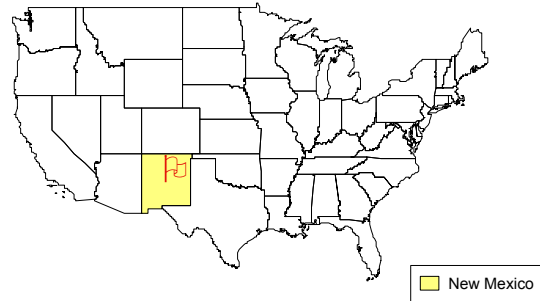
It is important to note that the report is designed in such a manner that the "general purpose financial statements" in Exhibits A-1 through A-5 and the Notes to the Financial Statements fully present and disclose the financial position and results of operations of all funds of the City. All other exhibits and schedules are presented to provide more detailed information, the totals of which correspond with data presented in the general purpose financial statements.

The Comprehensive Annual Financial Report (CAFR) of the City includes all government activities, organizations and functions for which the City is financially accountable. The criteria used to determine financial accountability are based upon and consistent with the pronouncements of the Governmental Accounting Standards Board, which sets criteria for defining the financial reporting entity. The City of Albuquerque is a major municipal government providing a full range of services to approximately 454,000 citizens. Included in these services are traditional city functions such as police and fire protection, culture and recreation, public works, road and traffic signal maintenance, water and sewer services, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, corrections and detention facilities, and a housing authority. The City does not have any other relationships with organizations not included in this CAFR of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

ECONOMIC CONDITION AND OUTLOOK

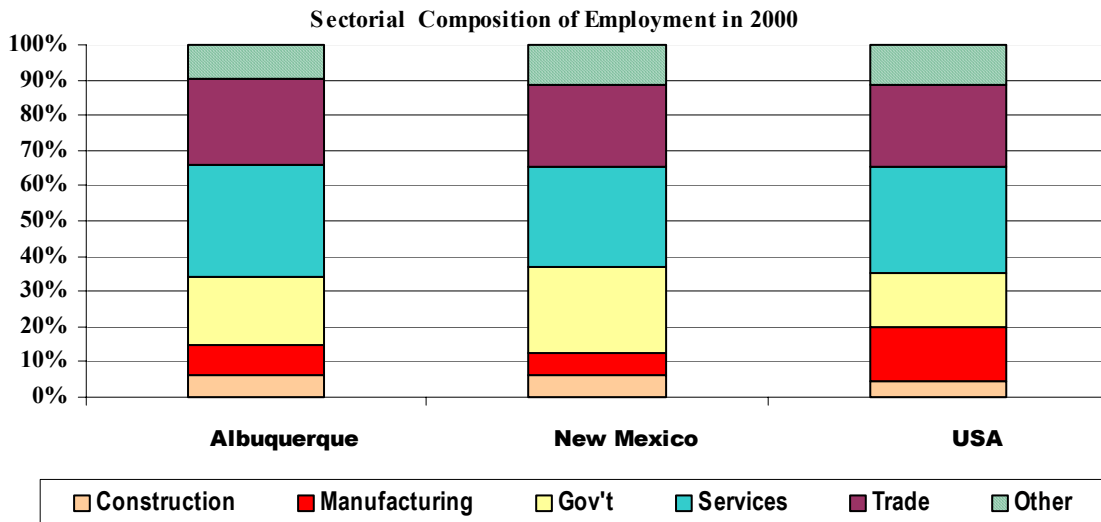
Summary of Local Economy

Albuquerque is the largest city in New Mexico, accounting for roughly one-quarter of the state's population. Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval and Valencia Counties. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.



The Albuquerque economy is a desirable place to live with a basically strong economy with a growing diversity. The economy in 1990's, took off after the national recession of 1991. Through 1996, the economy grew rapidly as the semiconductor industry moved into Albuquerque. These expansions included firms such as Intel, Philips, and Sumitomo. Along with this expansion, residential and commercial construction grew rapidly. Annual growth in non-agricultural employment peaked at 6.1% in 1994 but remained strong into 1996, but as expansions were completed and construction ended, employment growth slowed dramatically. This was added to by a continued reduction of employment and spending by the Department of Energy at SNL. In 1997, the economy slowed further, as a financial crisis in Asia, caused a large reduction in purchases of computer chips. This "Asian Flu" hit the local economy and manufacturing declined resulting in growth in total non-agricultural employment of around 1.5% in 1998 and 1999. In 2000 this turned around as manufacturing started growing. Also, call centers which were one of the strong areas of the economy in 1997 through 1999 continued growing. The semiconductor industry again gained employment and expanded plants which along with road construction helped bring employment growth up to 3% in 2000. Unemployment rates that had been higher than the U.S. declined to 3.5% in 2000, below the strong rate of 4% in the U.S.

The composition of the Albuquerque economy is similar to the U.S. as a whole. Manufacturing is smaller, but has held relatively stable as a share of employment, while its share has declined in the U.S. The following chart shows the composition for the State, the U.S. and Albuquerque for 2000.



Major Industries

Services The service sector is the largest source of employment in the MSA, accounting for 32% non-agricultural civilian employment in FY/01. This sector has grown in importance in both Albuquerque and in the U.S. It is a diverse sector including jobs in medical services, hotels, amusement, movies, legal work, commercial research, business services,

engineering, and architectural services. The Business Services sector is important and includes the growing temporary employment agencies, many of the call centers and back office operations and the SNL. Reductions in Department of Energy spending and reductions in employment at SNL have impacted this sector. Employment at SNL has stabilized, and the Labs have put much effort into spinning off technology. The Sandia Research Park, opened with its first occupant EMCORE, and has since added several additional occupants to the Park. These tenants are all involved at some level with high tech knowledge or components and are making use of SNL expertise.

As a major regional medical center the medical service industry has several of the largest employers in the area. The health services industry has been one of the fastest growing sectors in the Albuquerque area. This growth has recently slowed in part due to changes and uncertainties regarding health care financing, Medicare, and announced cutbacks at local medical centers

The business services sector includes many of the call centers and back office operations. However, the labor department has reclassified some of these jobs into other sectors. For instance: The "Finance, Insurance & Real Estate" class (FIRE) includes Nations Bank credit card service center, and Citicorp credit processing center; The "Transportation, Communications, & Utilities" class (TCU) includes VoiceStream Wireless customer service and technical support center and MCI Consumer Markets telemarketing operation.

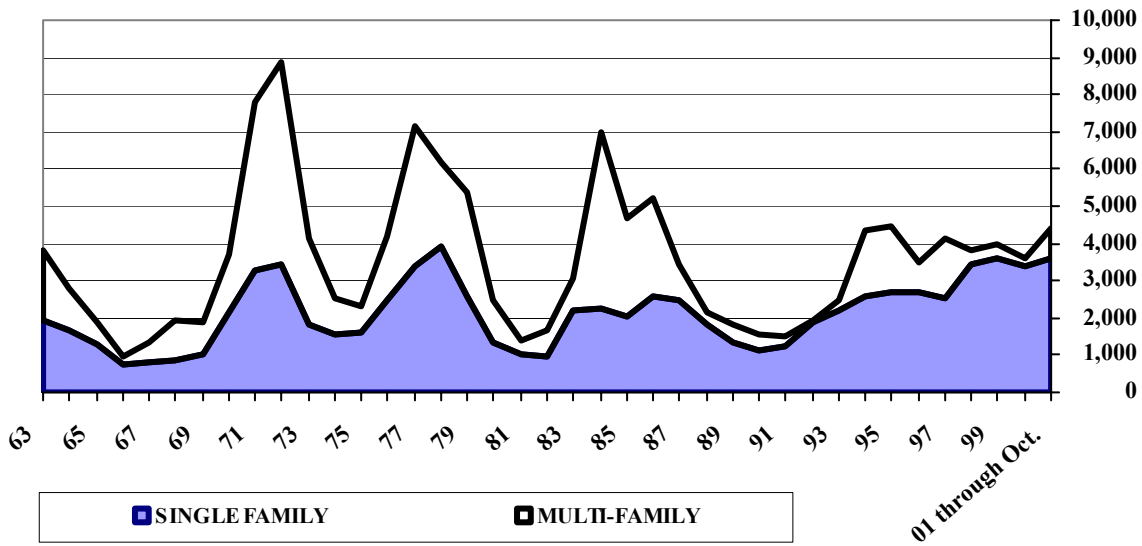
Trade (retail and wholesale): The trade sector is a strong catalyst for growth in the area. Many major national chains have expanded in the area and general growth and low interest rates have helped fuel consumer spending. The completion of Cottonwood Mall and other retail space does bring with it a concern that retail has been overbuilt in the area.

Non Agricultural Employment in the Albuquerque MSA (000's)				
Category	FY 2001	Share of FY/01 Employment	Growth FY/00 to FY/01	Annualized Average Growth FY/95-FY/01
Total Non-Agricultural	358.59		2.7%	2.1%
Trade	83.67	23%	2.3%	1.7%
Services	115.56	32%	2.7%	2.7%
Government	67.69	19%	1.0%	1.9%
Manufacturing	28.34	8%	4.3%	-0.4%
Construction	24.32	7%	9.6%	1.2%
TCU	19.98	6%	2.0%	6.5%
FIRE	18.93	5%	0.9%	2.7%
Military	7.14	N/A	-2.9%	-1.1%

Manufacturing Albuquerque's small manufacturing sector accounts for about 8% of total non-agricultural employment and is one of the area's most dynamic sectors. Investments by Intel, Philips and other high tech firms have helped to create a critical mass of activity in Albuquerque that has attracted interest by other firms; competitors, suppliers, and customers. Albuquerque is now rated as one of the top high tech centers in the U.S. as ranked by Forbes Magazine and others. Intel is well into a \$2 billion expansion slated for completion in the summer of 2002. This project will add an undetermined number of new manufacturing jobs. Other "high tech" firms are developing in part due to the presence of SNL. Some of the cores are laser technologies and microsystems that use machines only visible with a microscope. Also, Albuquerque Economic Development reports that there is interest, in locating to Albuquerque, by software manufacturers.

Construction. The construction sector is a source of growth and of volatility in the Albuquerque economy. Growth in employment and in gross receipts in construction tends to be quite cyclical. As shown in the following chart the residential building market exemplifies this. The booms of 1972, 1978, and 1984 were very large, and followed by very steep declines. This was accentuated by the multifamily housing market and certain tax rules that encouraged large development. In the 1990s, there has been a more or less sustained growth in single-family home construction. In this period, multifamily housing construction has been relatively small compared to other booms. Growth in the single family market suffered a small slowdown in 1997, but since 1991 has generally continued upward in record numbers of houses permitted. Several factors have helped spur this growth: reductions in the median prices of homes—the percentage of entry level homes has doubled from 10 to 20% of the market since 1997; lower interest rates, easier lending rules and programs to help first time home buyers. This market niche within the City was also helped by the reduction of residential construction (moderately priced) in nearby Rio Rancho. Multifamily building, after permitting 1,600 units in 1997, permitted only 967 units in the three years 1998 through 2000. Through October of 2001 788 units have been permitted (including 160 units permitted by the City). Not counted in this number are 69 units in the Old Albuquerque High project that were permitted as alterations rather than new units.

Permits issued for Residential Units in Albuquerque



In the 1990's, commercial construction peaked in 1995, but remained at historically high levels. In 2001, through October commercial construction is slowing, in part due to the slowdown in the national economy. Phillips issued permits for a large expansion, but this project is on hold and some of the equipment was sent to New York. Outside the City, in Rio Rancho, Intel is in the midst of a two billion dollar project that is employing near 2000 construction workers at its peak. The public sector permitting in 2000 was strong, as the City permitted: the Alvarado transportation center; a crime lab; a car rental facility at the Airport; and the Explora Museum. Also, three parking garages, in support of public private partnerships and downtown revitalization are completed or are nearing completion. Through October 2001, public permitting is less than one quarter of the 2000 level. State and Federal agencies, whose projects do not show up in City building permit numbers, also have built several large projects. In 2000 and 2001, the State constructed a new District Attorneys' office, expanded the Museum of Natural History, and a District Courthouse. Construction of a new metropolitan courthouse will begin in early 2002. A parking structure for the District Courthouse is already under construction. The Federal government in 2001 completed a Forest Service Building and a Social Security Administration building—both in downtown. The two-year \$250 million reconstruction of the Big-I (intersection of Interstates 25 and 40) is nearing completion. In January 2002, the project nears completion with the opening of the complete interchange. Other work, primarily on frontage roads through city frontage should be completed by June. This project has employed approximately 2,000 workers and has greatly improved the traffic flow in the City. The expansion of the Indian Casinos at Isleta, Sandia, and the Santa Ana Pueblos also has helped increase construction employment in the area. These projects total nearly \$200 million and include destination resort hotels at Isleta and Santa Ana Pueblos.

Government. The total number of government employees in the Albuquerque MSA increased by almost 9,000 between 1991 and 1997. The gain was all at the state and local level and much is due to the classification of Indian Casinos workers as local government employees. Federal government has been something of a drag on the Albuquerque economy since the late 1980's. Military employment has declined in every year since 1989, and there have been reductions in federal government employment in each year since 1993. Reductions in federal military spending have been responsible for losses in employment at General Electric, Honeywell Defense, Avionics, and BDM. Employment at SNL, operated by Lockheed Martin, was relatively stable until recently, but reductions in employment at SNL – regular and contract employees – since 1994 totaled about 1700. SNL currently has a workforce of 6,600 people but there is concern that funding could decline. On the brighter side, the new Sandia business Park and the push for technology transfer from the labs, is reflected in the growth in high tech industries in central New Mexico. Funding from the federal government for the nuclear weapons program and nuclear security now seem relatively secure as SNL assumes new roles in a post-Cold War period involving nuclear non-proliferation, arms control, and stockpile maintenance. Kirtland AFB, with its diverse operations, has done relatively well in the waves of base consolidations and closures. Recently, Phillips Laboratory was reorganized and became part of the Air Force Research Laboratory, headquartered out of Wright Patterson Air Force Base in Ohio. The reorganization means a loss of some 200 positions at Kirtland, but the positions lost are command positions and not the research positions, so important to the local economy in the incomes paid and the contracts let. Offsetting the losses at Phillips, Kirtland AFB is gaining a new flight simulator center. The new Theater Air Command and Control Simulation Facility is expected to result in more than 200 new full time jobs and many more part-time jobs. Kirtland will also gain some 73 new military positions in the 58th special Operations Wing.

Future Economic Outlook

In the near term Albuquerque faces many of the same problems as the nation. The slowdown in the economy and probable recession were amplified by the terrorist attacks of September 11. How we deal with the threat of terrorism at home will have long term impacts on the economy and how Albuquerque and the U.S. will grow. Employment growth has already slowed from the strong performance in 2000. Manufacturing is again one of the main factors in the slower growth. Philips recently laid off 120 workers, EMCORE laid off 75 and Honeywell laid off 75 workers in their generation unit and could layoff several hundred in their avionics unit. As the BIG-I and Intel projects are completed in mid 2002, construction employment is likely to drop by several thousand jobs. This slowdown in construction will occur even though many economists are projecting the national economy to pull out of the recession.

On the plus side, Albuquerque is likely to weather the economy better than much of the nation. Tourism one of New Mexico's largest industries may not be impacted as much as in other parts of the nation. Much of the tourism in New Mexico is from surrounding states and is largely a driving destination. With lower gasoline prices and less income to devote to vacations New Mexico may see an increase in tourism. The national labs are another strength. SNL has devoted a great deal of research to terrorism and the mission to protect the nuclear weapons arsenal becomes even more critical. The microsystems technology, that SNL is at the forefront of, may provide many novel and inexpensive answers to medical and materials sciences. The significant investments by producers of semi-conductors and other high technology firms, may present a bit of a drag on the economy today, but the City now has the critical mass necessary to attract further investments by suppliers, customers, and other producers.

DEPARTMENT EFFORTS AND ACCOMPLISHMENTS

The Albuquerque International Sunport, operated by the City's Aviation Department is centrally located in the State of New Mexico and is the only airport in the State that provides scheduled major and national airline service. The Sunport handled 6,292,458 passengers in 2000. The total has more than doubled over the past 10 years. There are an average of 640 takeoffs and landings per day from major commercial carriers, commuter airlines, general aviation aircraft and military aircraft. The Sunport shares its runways with Kirtland Air Force Base, which provides aircraft rescue and firefighting (ARFF) services for the airport. With four runways, two concourses and 23 gates, the Sunport offers nonstop service to almost 30 cities.

The Sunport distinguishes itself from most other airports by its 574,000 square foot terminal designed with a striking blend of contemporary and pueblo style architecture. Enhancing the terminal and rental car center is a permanent art collection on display valued at over \$1.4 million. A year-round performance series of local talent, the Sunport Serenades, various cultural exhibits, and merchants focusing on southwestern flavor all add to the unique airport experience for travelers and visitors.



Enterprise fund - The Aviation Department is an enterprise fund within the City of Albuquerque's budget structure. By definition, the airport is a stand-alone department that is required to generate sufficient operating revenue through contracts, leases, and rates and



charges so that no financial assistance is required from the city's general fund. The Department depends on the airlines for its primary source of revenue with other non-aviation related income accounting for the balance of the necessary funding. In order to assure that the department maintains this required level of funding, a rates and charges model is used that factors in operating expenses versus anticipated revenues. From the data produced by the model, precise calculations can be made to determine the appropriate rates that must be charged to the airlines, after factoring in all other income, so that the Aviation Department is able to maintain the appropriate operating fund balance.

The Albuquerque International Sunport and the Double Eagle II Airport are real property assets of the City of Albuquerque, and therefore the Aviation Department acts in the capacity of landlord for both airports. Contracts, leases and agreements provide the basis and guidelines for all of the financial and operational transactions occurring at the airports. It is the Department's responsibility to maintain these facilities through a system that assures operational effectiveness and efficiency.

Just as it is important to manage and maintain the physical elements of the Sunport, the Aviation Department also acknowledges its obligation to manage relationships with customers. One goal is to design and construct attractive facilities that complement the unique terminal building design and improve the Airport's ability to grow. The Department continually challenges itself to provide an upscale mix of food, merchandise, and services that meet and exceed the expectations of our customers. In order to achieve these goals, the Department has formed alliances and partnerships with consultants in the airport industry and can use their expertise to provide guidance during the decision making process. In this way, the Sunport remains on the cutting edge of technology, airport design, and current best practices in the airport industry.

Employees - The Aviation Department, with its many specialized fields, has one of the most unique hiring processes with the City of Albuquerque. Not only do new hires have to meet City and Departmental qualifications, they also must pass a security background check to comply with FAA regulations. This practice is to ensure that the Department's approximately 250 employees are qualified and highly skilled to meet the demands of a progressive airport.

The hiring of qualified personnel, however, does not always ensure that all employees can develop and work to their full potential to achieve quality performance. That is why three Value Teams were created to encourage intra-department and cross-functional creativity, communication, and collaboration. Employees from all levels and in all Department functions are invited to participate in the Customer and Community Service, Employee Well-Being & Performance, and Financial & Operations Value Teams. The goals of the Value Teams are: (1) to empower employees to participate in the decisions that affect them, and (2) to develop employee's skills to achieve their greatest potential. The Value Teams are comprised of employees at all levels with representatives from every division in the Department. The Teams are becoming a very useful tool in determining the wants and needs of employees and to evaluate whether the Department is doing a good job responding to those needs.

Customer Service - The Aviation Department is committed to providing outstanding customer service to the 12,000 to 17,000 people who pass through the airport terminal every day. These customers include arriving and departing passengers, meters and greeters, individuals conducting business with Sunport companies, and other visitors.



The Department utilizes a variety of learning and listening methods to remain current and responsive to changing customer and community needs. Web site comments, public information workshops, written comment sheets, customer complaint system and employee suggestion boxes are some examples. Our goal is a stronger community relationship.

Public information campaigns have been an integral part of the planning and development projects the Aviation Department has undertaken. Informing the community of airport activity before and during a project has helped to lessen the number of complaints received. In addition, more solid and trusting working relationships have been established with our neighbors by seeking public input on development projects and involving community members on planning and contract selection committees. Fully realizing that good community relationships are established with open communication and trust, the Department has worked diligently on improving the dialogue between the "airport community" and the neighborhoods.



Business - The Sunport boasts a broad mix of tenants that include everything from airlines and car rental agencies to restaurants, gift shops, a barbershop, bank, the National Weather Service and the Albuquerque Convention & Visitors Bureau. As "landlord" to all companies operating at the Sunport, the Aviation Department must ensure tenant satisfaction with facilities and in-house services. To the general public and community, the Aviation Department is a "public servant" and therefore must focus on providing exceptional customer service and being a responsible community member. The Department's ability to listen, learn

and be pro-active in response to all airport customers will enable the Sunport to further excel in the aviation industry and as a City Department.

With over six million passengers annually passing through the Sunport, and over two hundred tenants that occupy space at the airport, the Aviation Department emphasizes high-quality customer service in everything that we do. Total civilian activities at the airport produced an economic impact of \$1.25 billion in 1992 and supported 26,741 jobs in the Albuquerque area. The Sunport's Master Plan Update predicts that impact will grow to \$2.15 billion and 47,077 jobs by the year 2010. Toward this end, Department employees are taught to recognize their role as service-providers and to accept the responsibility and challenges that come with promising and delivering quality service.

Rental Car Center - Albuquerque now joins other major cities that have combined all rental car services in a building outside the main terminal. In 2001, the Aviation Department opened a new consolidated rental car center located at the southwestern end of airport property on University Boulevard SE. Shuttle buses provide transportation from the terminal to the customer service facility. Because of the very limited space at the main terminal, the nine rental car agencies housed at the new facility now have an opportunity to expand their fleets. The result is less traffic and people congestion in the bag claim area and a more pleasant experience for those renting and returning cars.

The customer service building shares many design elements with the main terminal, from the immense wood beams to a stunning art collection.



Master Plan Update - The Albuquerque International Sunport is the gateway to Albuquerque and the State of New Mexico, and as such is a major influence on the economic vitality of the community. In addition to managing effective daily airport operations, the Aviation Department is preparing and planning for future community growth and economic development by updating the Airport Master Plan. The Plan anticipates the development objectives of the airport for a twenty-year period and factors in all of the elements that influence that development. As the only airport in the state for international and interstate commercial aviation, the department is keenly aware of the essential role it plays in the high stakes game of economic expansion.

The first and last impressions many people have of New Mexico will be the Albuquerque International Sunport. The Aviation Department takes great pride in providing a first class aviation center that contributes positively to Albuquerque and New Mexico. A safe and pleasurable airport experience for our travelers and quality services for our customers is our mission.

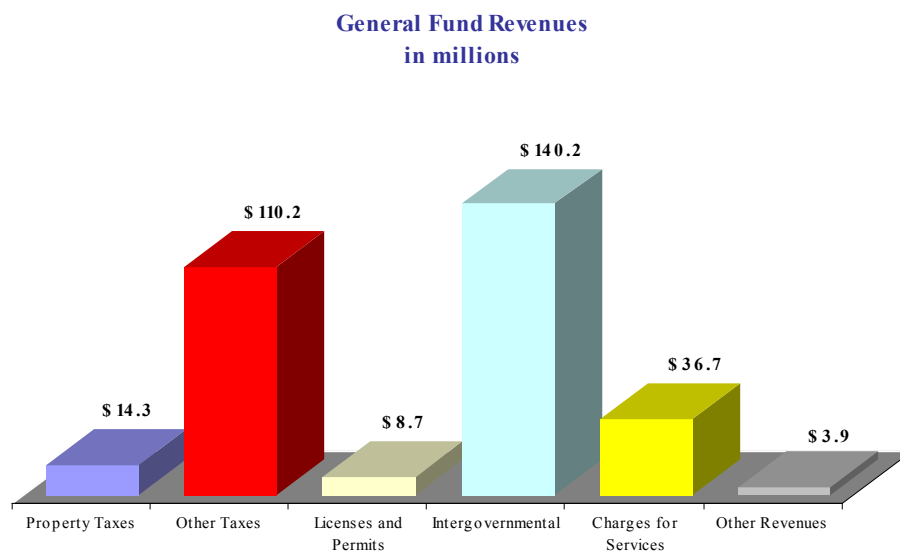
FINANCIAL INFORMATION

Internal control structure. The Finance and Administrative Services Department is responsible for providing financial services for the City including financial accounting and reporting, payroll and accounts payable disbursement functions, cash and investment management, debt management, purchasing, computer information systems, property management and risk management.

City management is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft or misuse and to ensure adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Accounting principles for municipalities are embodied in pronouncements of the Governmental Accounting Standards Board. The Financial Accounting Standards Board, the American Institute of Certified Public Accountants and the Government Finance Officers Association also impact and influence current governmental accounting standards. The internal control structure is designed to provide reasonable, but not absolute assurance that control objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived while the establishment of an appropriate internal control structure requires estimates and judgments from management. All internal control evaluations occur within the above framework. We believe that the City's current internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Budgetary controls. The development and approval of the annual budget is the beginning of the financial transaction process. After approval of the budget by City Council, budgetary control is maintained by a formal appropriation and encumbrance system. The appropriated amounts reflected in the accompanying financial statements represent departmental budgets by program; it is this level at which expenditures may not exceed appropriations. Encumbrances, which represent commitments for the purchase of goods or services, are shown as a reservation of fund balance in the governmental funds. Certain encumbrances will be re-appropriated in fiscal year 2002 for programs that had adequate reversions for the year ended June 30, 2001.

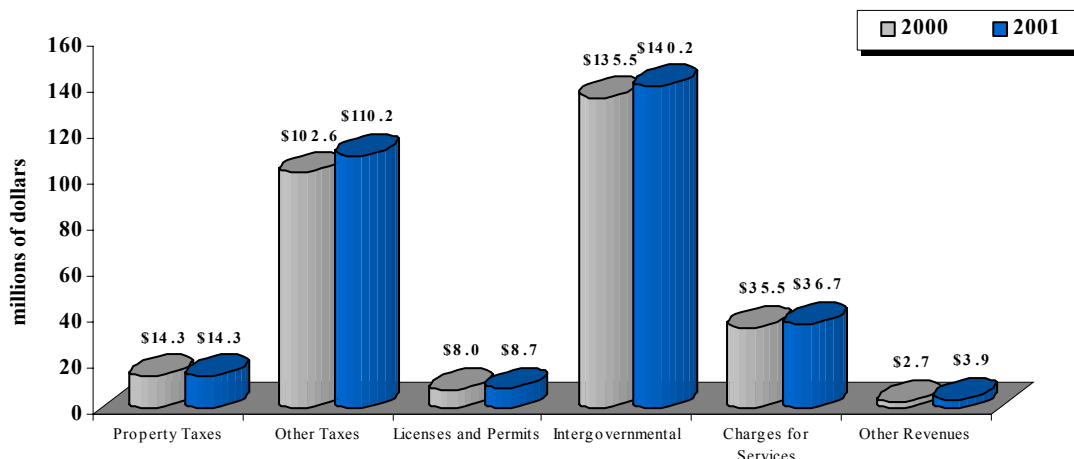
General government functions. General government operations are accounted for in the General Fund. Total General Fund revenues for fiscal year 2001 were \$314 million, an increase of 5.2%, or \$15.4 million from 2000. The majority of the increase in total revenue for 2001 results from an increase in the local option and state shared gross receipts tax revenue of \$9.7 million and an increase in franchise taxes of \$2.6 million.



* Includes gross receipts taxes of \$224.2\$ million or 71.4% of total revenues.

The amount of City revenue from various sources and the changes from the previous year are shown below.

**General Fund Revenues
compared to previous year**



Taxable property valuations were \$6.9 billion in 2001, a \$44 million increase from the previous year. Current property tax collections were 91.7% of the levy, compared to 78.3% in the prior year. Except for fiscal year 2000, current tax collections for the past decade have consistently exceeded 90% of the levy. The decrease in 2000 was due to system problems incurred by Bernalillo County that resulted in the remittance of tax collections based on estimates from the previous year. The ratio of total collections (current and delinquent) to the current tax levy in 2001 was 99.4% compared to 81.7% in 2000. Cumulative total collections for the last ten years are 97.4% of the cumulative billings. Allocation of the property tax for 2001 and the preceding two fiscal years is based on the following mill levy:

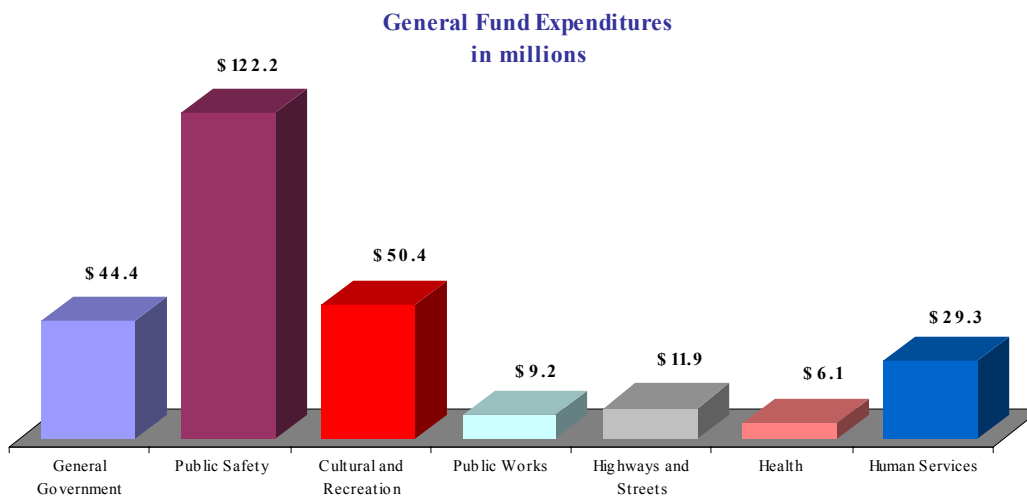
<u>Purpose</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operational mill levy:			
Residential	2.020	1.963	2.279
Non-residential	2.544	2.380	2.482
Debt service levy	8.976	8.976	8.976

The gross receipts tax rate on receipts within the City was 5.8125% at June 30, 2001. The breakdown and sources of the gross receipts tax rate are as follows:

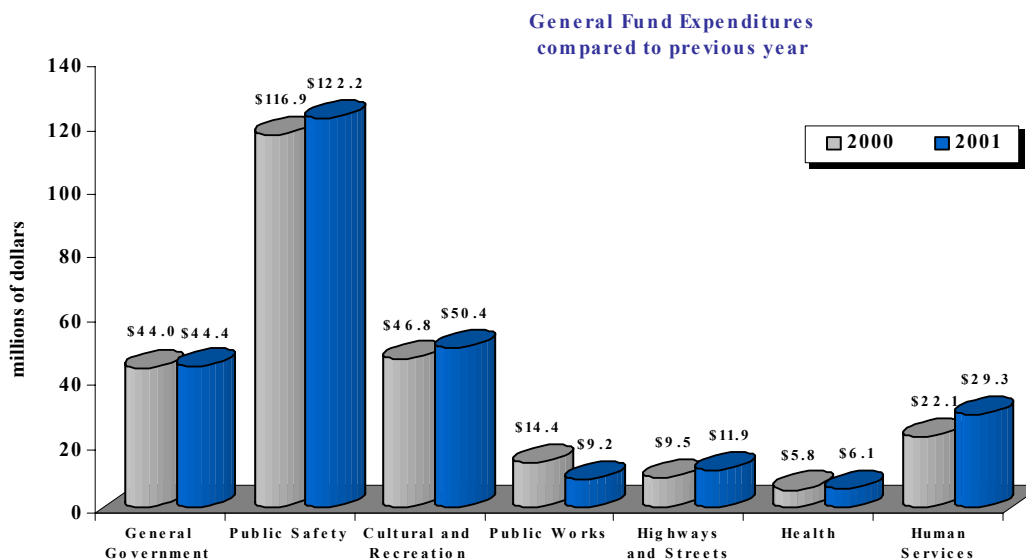
	<u>Tax Rate</u>	<u>Percent of Total Rate</u>
State General Fund	3.2750%	56.34%
Bernalillo County distribution	.2500	4.30
Municipal distribution - State shared	1.0000	17.20
Municipal distribution - in lieu of previous		
.25% municipal tax - State shared	.2250	3.87
City of Albuquerque general purpose	.5000	8.60
City of Albuquerque basic services	.2500	4.30
City of Albuquerque open space	.2500	4.30
Municipal infrastructure gross receipts tax	.0625	1.08
	5.8125%	100.00%

Additional information about revenues, tax rates, and levies is presented in the statistical section of this report.

General Fund expenditures totaled \$274 million, an increase of \$14.0 million or 5.4% more than in 2000. General Fund expenditures for major functions of the City and the changes from the previous year are shown in the following two charts.



The amount of City expenses in various functions and the changes from the previous year are shown below.



The \$2.4 million increase in Highway and Streets is due to the stepped up efforts to improve the streets in the City and for the increased electrical costs of signals and lighting.

The \$5.3 million increase in Public Safety is due to increased costs for 1) maintenance and fuel for fire and police vehicles, 2) additional overtime for police personnel, 3) a new communication center for handling emergency calls, and 4) two new fire stations becoming operational during the fiscal year.

The \$7.2 million increase in Human Services is due to the City's effort to promote improved education by partnering with the Albuquerque Public Schools.

The \$5.2 million decrease in Public Works is due to the transfer of maintenance costs to the Gas Tax Road Fund and the Infrastructure Tax Fund.

The \$3.6 million increase in Cultural and Recreation is due to increases of \$1.4 million for land management and approximately \$1.0 million increase for the Biological Park operations.

The changes (in thousands) in fund equity for the General Fund for the year ended June 30, 2001, were as follows:

Fund equity, July 1,	\$ 43,403
Revenues	313,900
Operating transfers in	3,663
Expenditures	(273,498)
Operating transfers out	(47,285)
Fund equity, June 30	<u>\$ 40,183</u>

Fund equity (in thousands of dollars) of the General Fund at June 30, 2001, consisted of the following:

Reservations of fund balance:	
Reserved for operations	\$ 15,549
Reserved for encumbrances	2,722
Other reservations	558
Unreserved fund balance	<u>21,354</u>
Total fund equity	<u>\$ 40,183</u>

Enterprise operations. The City operates seven enterprises to provide services to its citizens: an international airport, a joint water and sewer system, parking facilities, refuse collection and disposal, a transit system, golf courses and a housing authority. The following is a summary of the operations of these enterprises during 2001.

Airport Fund. Operating revenues of the Airport Fund totaled \$47.6 million for 2001, compared to \$45.1 million in the previous year, an increase of 5.5%. Operating expenses, including \$23.3 million of depreciation, were \$43.4 million. Operating expenses before depreciation and amortization increased by 18.2% from 2000. After consideration of non-operating revenues and expenses, the Airport had net income of \$5.3 million compared to a net income of \$4.6 million in 2000. The increase was primarily due to the higher operating revenues of \$2.4 million over 2000.

Golf Course Fund. Revenues of the Golf Course Fund were \$3.7 million, a 5.1% decrease from the prior year. Operating expenses, including depreciation of \$422 thousand, were \$3.9 million, an increase of 4.4%. The operating loss for 2001 was \$237 thousand; net loss was \$84 thousand, a decrease from net income of \$214 thousand in 2000.

Joint Water And Sewer Fund. Operating revenues for the year ended June 30, 2001 totaled \$107.8 million, an increase of 4.1% over 2000. Operating expenses for 2001, including depreciation and amortization of \$37.4 million, were \$98.8 million, an increase of \$738 thousand. Operating expenses before depreciation and amortization increased by 9.4%. The operating income for 2001 was \$9.0 million, compared to \$5.5 million in 2000. The fund experienced a net income of \$12.0 million compared to \$5.7 million in 2000. The increase in the net income is primarily due to the increase in revenues of \$4.2 million and a decrease in depreciation in 2001 of \$4.6 million. The higher revenues were a result of a rate increase during the middle of the previous fiscal year resulting in a full year at the increased rates for 2001.

Parking Facilities Fund. The operating income of the Parking Facilities Fund was \$56 thousand in 2001 compared to \$8 thousand in 2000. The fund incurred a net income of \$719 thousand in 2001 compared to a net income of \$466 thousand in 2000. This increase was primarily due to a \$2.1 million increase in interest income offset by a decrease in the operating transfer from the General Fund by \$628 thousand.

Refuse Disposal Fund. Operating revenues of the Refuse Disposal Fund increased by \$2.6 million in 2001 to \$38.2 million from \$35.6 million in 2000, for an increase of 7.3%. Operating expenses increased by \$1.6 million to \$33.6 million. Operating expenses included depreciation of \$4.7 million for 2001 compared to \$4.6 million for 2000. Operating income for 2001 was \$4.6 million, an increase of \$1.0 million from 2000. Net income increased to \$3.6 million in 2001, after a net income of \$1.6 million in 2000.

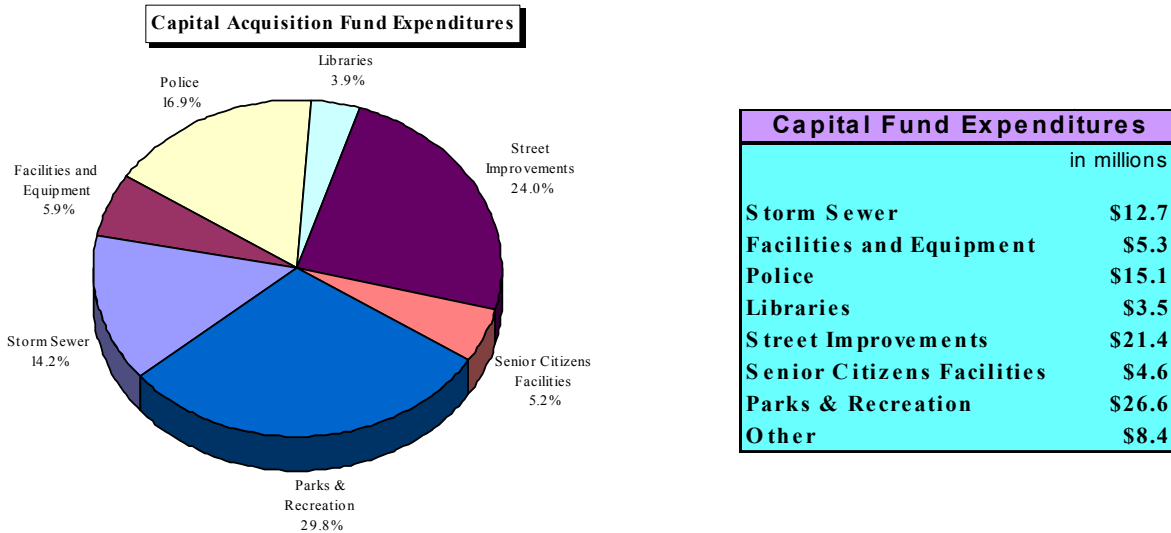
Transit Fund. The operating revenues of the Transit Fund decreased by \$53.0 thousand to \$2.8 million, while operating expenses increased by \$5.4 million to \$30.8 million. The resulting increase in the loss from operations was \$5.4 million from \$22.6 million in 2000 to \$28.0 million in 2001. Operating subsidy transfers from the General Fund for 2001 were \$22.5 million, compared to \$16.3 million in 2000. The net loss for the year was \$3.1 million compared to \$4.5 million loss in the prior year.

Housing Authority Fund. The operating revenues decreased by \$33 thousand to \$1.6 million in 2001 while the operating expenses decreased by \$40 thousand to \$7.5 million. Included in operating expenses is depreciation of \$2.1 million with an increase of \$185 thousand from 2000. The Federal housing grant revenue was \$18.9 million in 2001 for an increase of \$2.4 million. The housing assistance payments for 2001 was \$14.7 million compared to \$12.5 million in 2000. The operating loss decreased by \$7 thousand to \$5.9 million in 2001 while the net loss decreased by \$2 thousand to \$565 thousand.

Debt administration. The ratio of general obligation net bonded debt (net of balances set aside for debt service) to the taxable valuation and the amount of bonded debt per capita are useful indicators of the debt position of the City. At June 30, 2001, the net general bonded debt of the City was \$106.7 million, 1.55% of the taxable valuation as compared to 1.65% at June 30, 2000. The net bonded taxable debt per capita was \$235.09 at June 30, 2001 compared to \$252.67 for the prior year.

The outstanding general obligation debt at June 30, 2001 was \$138.2 million. During fiscal year 2001, the City issued \$50.8 million of general obligation bonds. The general obligation bonds of the City continue to have excellent ratings of "Aa3" by Moody's Investors Service, "AA" by Standard & Poor's and "AA" by Fitch Investor Service.

Capital projects funds. During 2001, total expenditures for the Capital Acquisition Fund were \$89.2 million compared to \$85.5 million in the prior year. These expenditures were for the purposes shown below.



in millions	
Storm Sewer	\$12.7
Facilities and Equipment	\$5.3
Police	\$15.1
Libraries	\$3.5
Street Improvements	\$21.4
Senior Citizens Facilities	\$4.6
Parks & Recreation	\$26.6
Other	\$8.4

Other capital projects consist of Community Services buildings, the Convention Center, Environmental improvements, Fire Protection, the Museum, the Rio Grande Zoo, Transit and other miscellaneous projects, each with total expenditures of less than \$2.3 million.

Cash management. Pursuant to the Fiscal Agent Ordinance of the City, a pooled cash investment program was in place, and cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. It is the City's policy to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Investments and deposits in the City's common investment pool totaled \$451.1 million at June 30, 2001. Of this amount, \$324.0 million was invested in repurchase agreements and \$127.1 million in securities of the Federal government and its related agencies and certificates of deposit.

The City's portfolio average life at June 30, 2001 was 481 days. The average yield on the investment portfolio was 4.80% at the end of June 2001 and 5.92% at the end of June 2000. Interest earned totaled \$33.5 million during the fiscal year. Pooled cash, investments, and accrued interest balances (in millions) at the end of the year for the last five years are as follows:

2001	\$451.1
2000	\$477.8
1999	\$408.8
1998	\$421.8
1997	\$397.8

Risk management. The City operates its Risk Management program as an Internal Service Fund; accountability and managerial control over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. "Insurance premiums" are received from the operating departments in the form of transfers. The added risk control and prevention techniques include employee accident prevention training and a wellness program.

The transfers to the Risk Management fund from the operating (insured) departments were \$15.8 million compared to transfers in the prior year of \$15.9 million. Claim reserves (current and long-term) as of June 30, 2001 were \$33.8 million, a increase from \$30.3 million from the previous year. The Fund experienced a net loss of \$6.7 million in 2001, a increase from the net loss of \$2.0 million in 2000.

The deficit fund equity increased to \$11.6 million at June 30, 2001 from the \$4.9 million at June 30, 2000. The increase in the Risk Management Fund deficit is attributable to an unanticipated adverse judgment in the amount of \$5.0 Million in connection with a land use suit filed against the City and a temporary reduction in assessments to other City Funds. The City expects to eliminate the deficit by June 30, 2006 by increasing the annual assessment to all operating funds and through an improved loss experience that the City expects to achieve.

OTHER INFORMATION

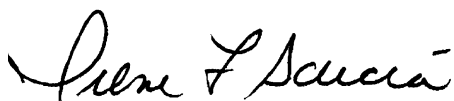
Independent audit. New Mexico state law requires that independent public accountants perform an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report. The firm of Neff & Ricci LLP has performed the audit for the year ending June 30, 2001. Federal law also requires that a single audit be performed for federal grant funds as required by the Single Audit Act and OMB Circular A-133. The independent auditors' report on the financial statements and schedules is included in the financial section of this report. The independent auditors' reports related specifically to the single audit are included in the Single Audit Section.

Awards. The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Albuquerque for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. The City has received this prestigious award every year since 1980. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. This report has also been prepared to meet GFOA standards and will be submitted for review.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year ended June 30, 2000. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

Acknowledgments. The preparation of this report could not have been accomplished without the dedicated services of the staff of the Finance and Administrative Services Department. We wish to express our appreciation to all members of the Department who contributed to its preparation and recognize the major effort of the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report. We also wish to thank each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Irene Garcia
Deputy Chief Administrative Officer



Sandra Doyle
Director, Finance and Administrative Services
Department